

Virginia Economic Highlights

Introduction

An economist at the University of Virginia's Weldon Cooper Center for Public Service prepared this review of the Virginia economy. The brief write-up covers the Virginia economy through FY 2002. Most of the analysis is based on data for the past six fiscal years with emphasis on last year. This provides measures of change for five years. All data are seasonally adjusted unless otherwise noted.

According to the National Bureau of Economic Research, a record-breaking 120-month expansion peaked in March 2001, three months before the beginning of FY 2002. Thus the fiscal year began in the midst of an economic contraction. In addition, there were the terrorist attacks of September 11 and the continuation of a major bear market in stocks that was particularly hard on telecommunications and other leaders in the so-called new economy. In terms of Virginia state government tax revenue, FY 2002 was especially difficult because of reduced realized net capital gains and a decline in business travel and tourism associated with September 11. Northern Virginia was adversely affected by the closing of Reagan National Airport for 23 days and the delay in returning to full operation until mid-April 2002.

Employment

In FY 2002, Virginia's nonfarm payroll employment fell by 35,100, a 1 percent decline (**Figure 13**). This was in sharp contrast to an average annual gain of 88,400 in the preceding four years. Over three-fifths of the FY 2002 decline was in manufacturing, with declines in most industries. The heaviest losses were in electronics, furniture, and textiles. Manufacturing had been a troubled sector in

past years. This year, however, there were no large offsetting gains in other sectors as had been the case in earlier years. In fact, private services and retail trade, two of the strongest sectors in the past, both experienced declines in FY 2002. The only sectors that experienced employment growth were state and local government, finance, insurance, and real estate, and mining. The gain in state government will be ephemeral since severe budget problems first recognized in the latter part of FY 2002 are now causing hiring freezes and layoffs. The gain in Virginia's small mining sector was unusual. The sector, with its concentration in bituminous coal mining, has generally experienced declines in recent years. The small increase in coal mining employment can be attributed to a run up in oil prices that increased the demand for coal. An important sector with declining employment was the federal civilian government. Its Virginia payroll dropped by 3,600. For a number of years, the federal government has been using private contractors to carry out functions previously performed by federal employees. Thus, at least part of the decline probably was offset by gains in private services employment attributable to federal contracts. However, despite the positive effect of federal contracts, employment in private services declined by 3,500. In previous years, private services had been a major contributor to employment growth. Not all service employment declined. There were major gains in health services, social services, and engineering and management services. Losses were concentrated in business services (an industry that includes temp services) and in hotels. Another sector that had been a contributor to employment growth in previous years was transportation and public utilities. In FY 2002, this sector experienced employment losses associated with the declining fortunes of the telecommunication and airline industries.

Figure 13
Virginia Nonfarm Payroll Employment

	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	Change, FY 2001 to FY 2002	
							Number	Percent
Total	3,188,800	3,270,800	3,369,700	3,463,300	3,542,500	3,507,400	(35,100)	(1.0)
Mining	11,100	11,000	10,400	10,000	9,900	10,100	200	2.0
Construction	182,800	186,800	194,200	203,600	212,600	209,800	(2,800)	(1.3)
Manufacturing	401,900	406,800	397,800	394,000	383,900	362,300	(21,600)	(6.0)
Transportation & public utilities	165,100	169,900	174,400	183,100	190,000	181,900	(8,100)	(4.5)
Wholesale trade	143,500	144,200	146,100	148,500	145,500	142,800	(2,700)	(1.9)
Retail trade	576,000	583,400	594,000	611,200	622,800	620,500	(2,300)	(0.4)
Finance, insurance, real estate	165,600	171,700	181,200	186,700	192,100	193,500	1,400	0.7
Private services	945,500	999,300	1,065,500	1,107,700	1,157,500	1,154,000	(3,500)	(0.3)
Federal government	160,500	153,400	151,100	152,300	150,400	146,800	(3,600)	(2.5)
State government	137,900	138,200	141,500	143,800	146,400	147,500	1,100	0.7
Local government	298,800	306,200	313,500	322,400	331,500	338,400	6,900	2.0

Source: Bureau of Labor Statistics

Note: Data are not seasonally adjusted.

The state's 1 percent decline in employment was slightly worse than the national average of 0.8 percent. This was only the second time in the last five fiscal years that Virginia underperformed the nation (**Figure 14**).

The drop in employment was shared by nearly all areas of the state. The metropolitan statistical areas (MSAs), which account for four-fifths of total state employment, experienced a 20,600 drop in payroll employment (**Figure 15**). Virginia's non-metropolitan areas constitute a diverse collection. As a

whole, they sustained a loss of 14,500 jobs. Within the grouping, the Shenandoah Valley region performed well. Weakness was experienced in Southwest Virginia and southern areas with textile and furniture factories. All of the three largest MSAs experienced losses, but the absolute and relative declines were greatest in Northern Virginia. The Norfolk-Virginia Beach-Newport News MSA (Hampton Roads area) experienced a nominal decrease and the Richmond-Petersburg MSA sustained only a small decline.

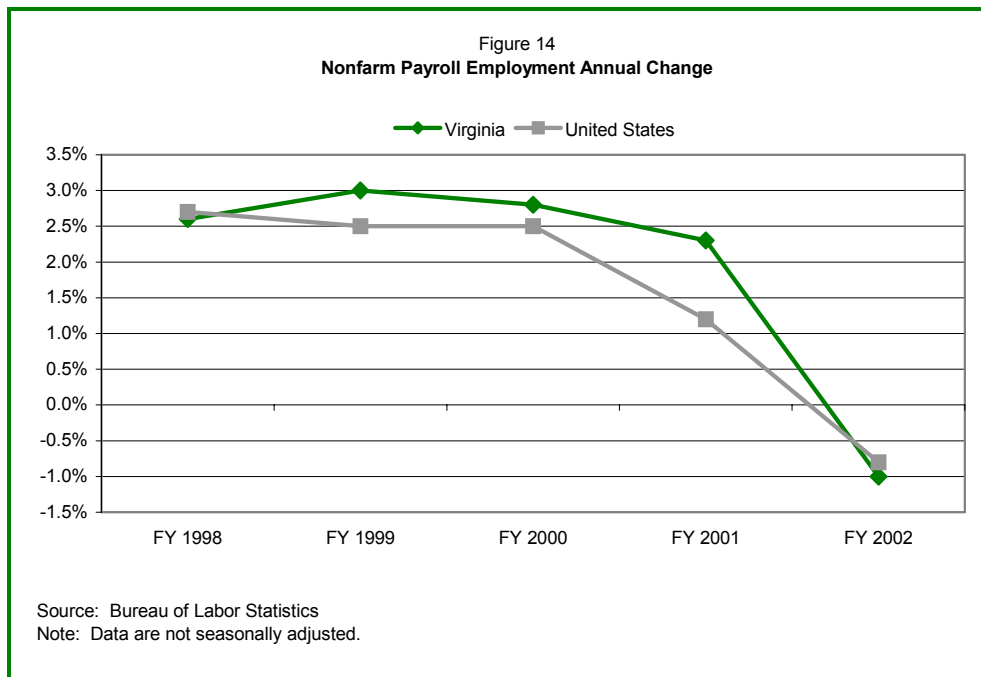


Figure 15
Nonfarm Payroll Employment by Metropolitan and Non-metropolitan Areas

	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	Change, FY 2001 to FY 2002	
							Number	Percent
Metropolitan statistical areas	2,551,500	2,625,400	2,702,900	2,788,100	2,863,800	2,843,200	(20,600)	(0.7)
Bristol ¹	37,000	37,500	38,000	39,200	39,600	39,700	100	0.3
Charlottesville	79,500	82,200	84,600	86,700	88,600	87,100	(1,500)	(1.7)
Danville	45,200	45,700	45,800	46,000	46,800	45,200	(1,600)	(3.5)
Lynchburg	96,700	97,700	100,600	103,300	103,200	99,900	(3,300)	(3.3)
Norfolk-Virginia Beach-Newport News ¹	657,000	673,000	689,000	697,300	705,900	705,800	(100)	0.0
Northern Virginia ¹	978,800	1,016,700	1,060,200	1,118,500	1,171,400	1,160,400	(11,000)	(0.9)
Richmond-Petersburg	516,600	530,500	541,400	552,800	562,000	559,900	(2,100)	(0.4)
Roanoke	140,700	142,100	143,300	144,300	146,300	145,200	(1,100)	(0.8)
Non-metropolitan areas	637,300	645,400	666,800	675,200	678,700	664,200	(14,500)	(2.2)

Source: Bureau of Labor Statistics
¹ Virginia portion of the following interstate MSAs: Johnson City-Kingsport-Bristol TN-VA; Norfolk-Virginia Beach-Newport News VA-NC; and Washington, DC-MD-VA-WV.
 Note: Data are not seasonally adjusted.

Unemployment

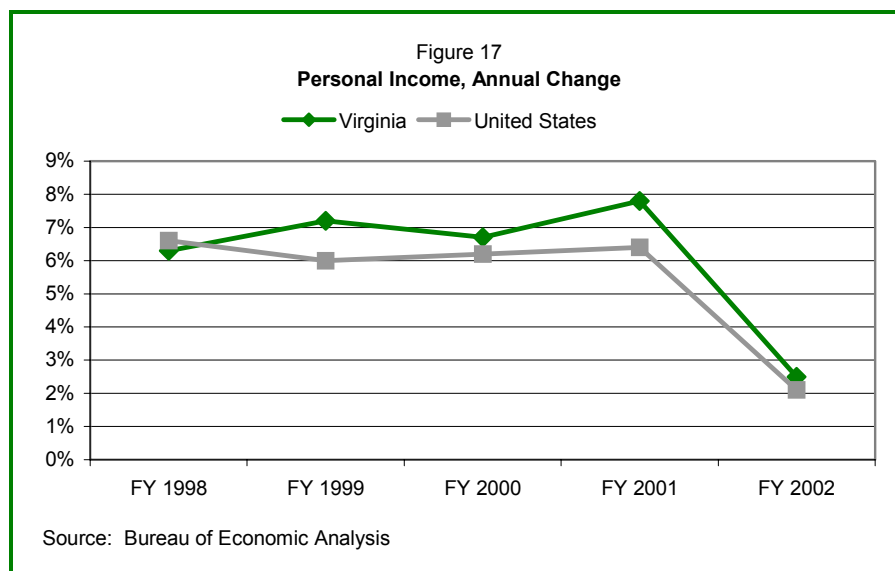
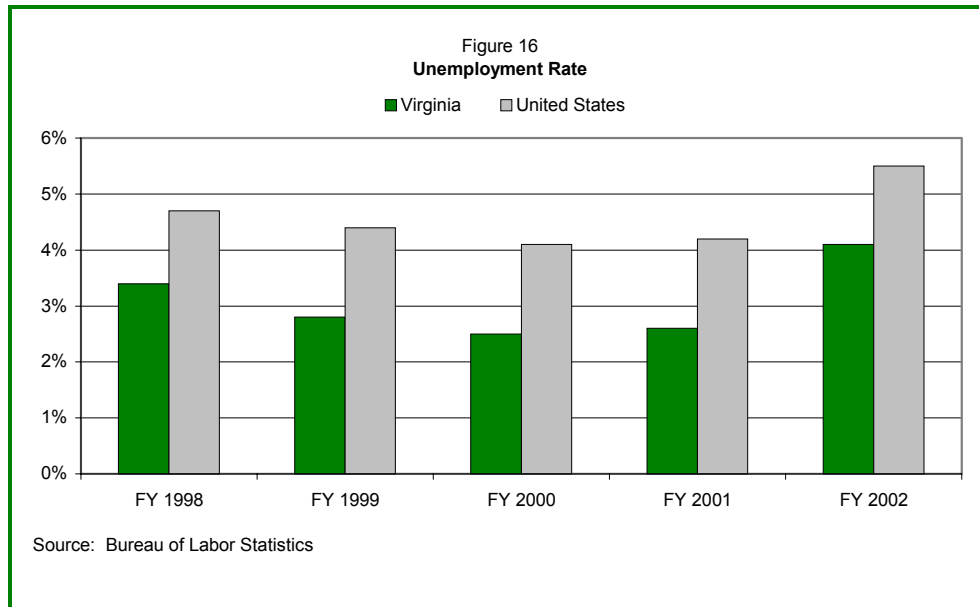
Virginia's unemployment rate for the fiscal year was 4.1 percent, moderate by national standards, but sharply higher than in the previous year when it was only 2.6 percent (**Figure 16**). The seasonally adjusted rate started the fiscal year at 3.6 percent and rose to a peak value of 4.6 percent in April before dropping to 3.8 percent in June 2002. Virginia's unemployment rate was well below the national average in FY 2002 and in preceding years. In fact, in the last half century, Virginia's rate always has been below the national average.

In June 2002 when statewide unemployment totaled 164,300 (not seasonally adjusted), about three out of five unemployed workers were located in the state's three major metropolitan areas (Northern Virginia, Hampton Roads, and Richmond-Petersburg). The metropolitan area with the lowest rate was

Charlottesville (2.8 percent) and the MSA with the highest rate was Danville (9.9 percent). Non-metropolitan areas, accounted for about a fourth of the unemployed, and had an overall rate of 5.1 percent. Within the non-metropolitan area, there were high rates in the coal fields and textile and furniture manufacturing areas and low rates in the Shenandoah Valley.

Personal Income

Virginia's personal income grew by only 2.5 percent in FY 2002, a much slower rate than in any of the preceding five years (**Figure 17**). In the earlier years, the growth rate averaged 6.8 percent. The state's slower growth mirrored the national experience. In the most recent fiscal year, the national average rose only 2.1 percent.



The calendar year 2001 personal income data for Virginia and the U.S. illustrate the relative importance of various components of personal income (**Figure 18**). The Virginia economy shares many similarities with the nation so most items represent about the same percentage of total income as nationally. Items that differ greatly (2 percentage points or more) are highlighted. The adjustment for residence reflects the importance of Northern Virginia as a bedroom community for the District of Columbia. Transfer payments represent a smaller share in Virginia. The state has a young population so Social Security benefits are a smaller share of income. Also, Virginia's lower unemployment translates into minimal unemployment insurance payments. Manufacturing is relatively less important than nationwide. Private services are relatively more important in the Old Dominion. A major reason is the importance of business services, a category that includes many high tech firms. As would be expected

with the many federal agencies in Virginia including the Pentagon and the importance of military bases in Virginia, the state has an above-average share of earnings from federal civilian and military employment.

In calendar year 2001, Virginia's per capita income was \$32,431, an amount 106.4 percent of the national average. The Commonwealth ranked twelfth from the top among the fifty states. In the last six years, there was steady improvement in the state's ratio to the national average and its ranking. In 1996 per capita income was 103.7 percent of the national average and the state ranked fifteenth. Among its neighbors, Virginia's 2001 per capita amount exceeded incomes in North Carolina, Tennessee, Kentucky, and West Virginia, but was lower than incomes in the District of Columbia and Maryland.

Figure 18
Personal Income by Major Source and Earnings by Industry, CY 2001

Item	Percent of Total		Percentage Point Difference
	Virginia	U.S.	
Personal income	100.0	100.0	0.0
Earnings by place of work	72.6	71.9	0.7
Less: Personal contributions for social insurance	4.4	4.3	0.1
Plus: Adjustment for residence	3.9	0.0	3.9
Net earnings by place of residence	72.1	67.6	4.5
Plus: Dividends, interest, and rent	17.9	18.9	- 1.0
Plus: Transfer payments	9.9	13.5	- 3.6
Earnings by industry	72.6	71.9	0.7
Farm earnings	0.2	0.5	- 0.3
Agricultural services, forestry, fishing, and other	0.4	0.5	- 0.1
Mining	0.4	0.6	- 0.2
Construction	4.5	4.4	0.1
Manufacturing	7.3	10.6	- 3.3
Transportation and public utilities	4.8	4.9	- 0.1
Wholesale trade	3.6	4.3	- 0.7
Retail trade	5.8	6.3	- 0.5
Finance, insurance, and real estate	5.4	6.9	- 1.5
Services	23.4	21.3	2.1
Federal, civilian	5.1	2.2	2.9
Military	3.9	0.9	3.0
State and local	7.9	8.4	- 0.5

Source: Bureau of Economic Analysis

Note: Screen indicates a difference of 2 or more percentage points between Virginia and the United States.

Federal Contracts

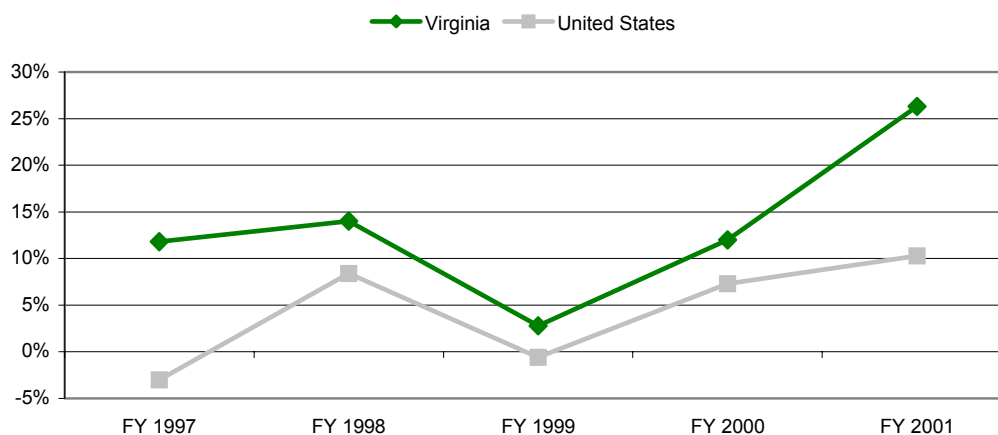
Federal contracts are a major driver for the Virginia economy. Data on federal prime contract awards are available through federal fiscal year 2001, which ended in September 2001. That year shows little of the impact of September 11 on government contracts. In federal FY 2001, Virginia accounted for 10.9 percent of prime contract awards and the amount was exceeded only by California. On a per capita basis, Virginia ranked second in the nation. Only the District of Columbia had a higher amount.

In recent years, defense contracts have accounted for about two-thirds of the contracts awarded in Virginia with a concentration in Hampton Roads, the so-called capital of the

U.S. Navy, and Northern Virginia, home of the Pentagon. Two Virginia localities, Newport News City and Fairfax County, ranked in the top five counties or county equivalent areas in the nation receiving defense contracts in FY 2001. The value of contracts fluctuates from year to year primarily because of the long lead-time for military hardware. For example, an aircraft carrier takes five years to build from laying the keel to delivery.

In FY 2001, the state's federal contracts rose by 26 percent (**Figure 19**). This very large increase was fueled by major contract awards to Northrop Grumman Newport News, the nation's only builder of nuclear powered aircraft carriers. Since FY 1996, contracts in Virginia have risen faster than the national average in every year.

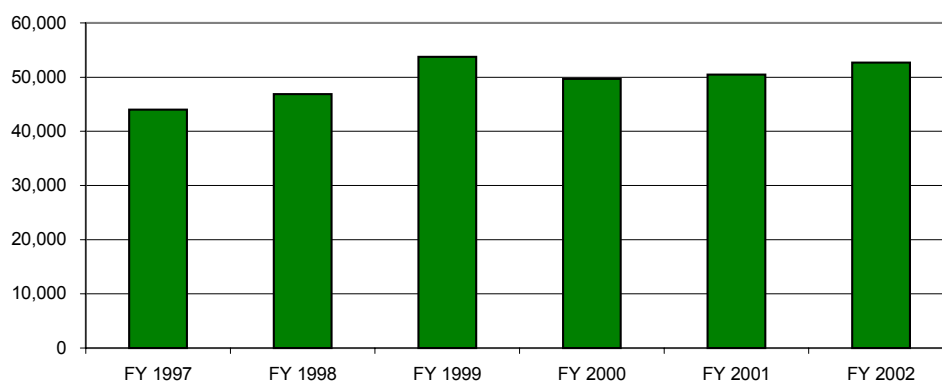
Figure 19
Federal Procurement Contract Awards Annual Change



Source: Bureau of the Census

Note: Based on federal fiscal years that end in September.

Figure 20
Building Permits Issued for Private Housing Units



Source: Bureau of the Census

Note: Data are not seasonally adjusted.

Residential Permits

Spurred by low mortgage rates, building permits issued for private housing units remained at a high level. In FY 2002, the number issued was 52,717, the second highest number in the last six years (**Figure 20**). The gain was 4.5 percent over FY 2001 compared to 2.9 percent for the nation as a whole.

Taxable Sales

The Virginia sales and use tax is a broad based tax that covers most retail sales. However, to compare collection results with national data on retail sales it is necessary to adjust the series. To make the national sales data comparable, the following items not included in the Virginia tax base were excluded: gasoline sales and new and used vehicle sales. To make the Virginia data comparable with the adjusted national data, motel and hotel taxable sales were excluded since lodging is not included in national retail sales. Virginia adjusted taxable sales rose 1.1 percent in FY 2002, a growth rate much lower than in the preceding four years

(**Figure 21**). The state's taxable sales growth rate was also far below the comparable national rate of 5.2 percent. A major reason for the slow state growth in FY 2002 was the impact of September 11 on the Northern Virginia economy. Although the sales tax data have been adjusted to exclude motel and hotel sales, there were other sales categories such as restaurant meals that were severely affected by the reduction in tourism and business travel.

Population

Virginia's population in calendar year 2001 was 7.2 million according to provisional estimates by the Census Bureau. From 2000 to 2001 Virginia's population gain was 1.2 percent versus 0.9 percent for the nation. The Northern Virginia MSA had the most rapid growth within the Commonwealth, increasing by 2.4 percent. That area is the dominant population center of Virginia, accounting for nearly a third of the state's total population. Taken together, Northern Virginia, Hampton Roads, and Richmond-Petersburg are home to two-thirds of Virginia's residents.

